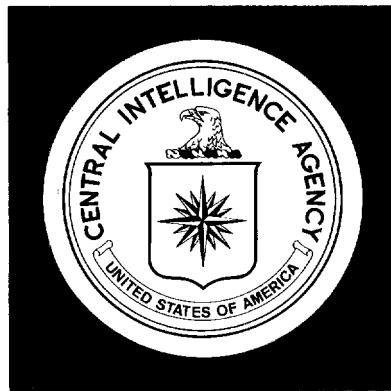


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CONTENTS

VIETNAM: Hanoi sent high-level cadre to South in April to clarify "misunderstandings" and raise morale. (Page 1)

SYRIA-JORDAN: Damascus provides wheat as Jordan has serious drought. (Page 3)

BRAZIL: Inflation a major problem in last months of Medici administration. (Page 4)

SRI LANKA: Foodgrain shortage anticipated. (Page 5)

VIETNAM: Hanoi dispatched a ranking Central Committee member to the South in April to clarify "misunderstandings" over North Vietnam's line on the war and on party policy.

A key source of confusion and poor morale appears to have been Hanoi's unwillingness to support renewed major military operations in the South. [redacted]

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[redacted] the head of the Central Committee's Propaganda and Training Section, To Huu, told assembled COSVN cadre in Tay Ninh Province that because of the "international situation" and a "weakening of the war-making potential" on the Communist side, a large-scale military offensive could not be attempted for three to five years. Possibly to assuage cadre concerns that this policy amounted to abandonment of the revolution in the South, Huu claimed that North Vietnam would now concentrate on consolidating its economy, to serve as a "large rear base area for the South"--a traditional Hanoi cliché.

He also made some overblown claims about North Vietnam's intent to provide economic backing directly, saying that:

--To match economic gains made by Saigon, Hanoi will concentrate "all of its economic resources" in support of the Communists in the South. The North even plans, with the help of the Japanese Communists, to set up Honda factories and textile plants.

--"Three million" North Vietnamese will be resettled in "liberated areas" by mid-1974, especially in Binh Long and Tay Ninh provinces just north of Saigon.

Huu was also sent to clarify an article by party First Secretary Le Duan early in the year, [redacted] which criticized the ineffectiveness of some party [redacted]

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[redacted] cadre. Le Duan, in the article, suggested that some cadre would have to be weeded out--a suggestion that had no small effect on morale. Huu tried to minimize this by claiming that Duan's lecture had been intended to improve the skills, morale, and health of cadre.

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[redacted] Huu originally intended to visit only Quang Tri Province, but decided to go on to COSVN after arriving in South Vietnam. This suggests that he found more serious "misunderstandings" over Hanoi's current policy on both the war and on party matters than he anticipated. Given the apparent extent of cadre concern, To Huu's overstated claims probably had only a limited palliative effect.

[redacted]

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SYRIA-JORDAN: Damascus has provided Jordan with 12,000 tons of wheat to help tide Amman over until US PL-480 supplies arrive some time this month. Confronted with one of its worst droughts in recent history, Amman was facing a serious wheat shortage pending the arrival of 35,000 tons from the US. The deal with Syria, which has had bumper crops in recent years, was arranged by the ministers of economy of the two countries, who are personal friends.

This willingness to be helpful indicates some moderation in Syria's attitude toward Jordan, although re-establishment of diplomatic relations is unlikely in view of Amman's hard line fedayeen policy. Largely for economic reasons, the Syrians recently permitted Jordan to use Syrian ports for import of goods backlogged in Beirut because of Damascus' closure of the Lebanese border on 9 May.

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BRAZIL: Continued difficulty in controlling inflation--particularly in food prices--will provide a major challenge in the final months of the Medici administration.

Recent figures show that the plan to hold this year's inflation down to 12 percent (compared with 16 percent in 1972) is threatened by persistent price increases on important food items. In particular, beans, a staple in the working man's diet, have doubled in price since January. Milk and meat prices are also a serious problem. In addition, recent preliminary reports showed prices rising faster in April and May than during the same months of 1972, although inflation during the first five months as a whole was somewhat lower than that of a year ago.

The administration has derived much of its considerable prestige from its ability, up until now, to solve economic and technical problems, and it has singled out inflation control for highest priority. Powerful Finance Minister Delfim Neto, architect of the anti-inflation effort, recently emerged victorious from a challenge by the agriculture minister. When the latter publicly charged that the inflation fight was hurting food producers, he lost his case and ultimately resigned.

The regime's military backers have come to expect that the government will deliver on its economic promises and, in their eyes, the government could lose some of its aura of success if Medici fails to control inflation.

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SRI LANKA: Prime Minister Bandaranaike told the US ambassador last week that the government's foodgrain stocks will last only through early November. The drought has caused a shortfall in the spring rice harvest and government rice procurement for its ration shops has been held down mainly because producers are holding out for higher prices. Sri Lanka had hoped for US PL-480 wheat flour shipments in order to supply the ration shops until the major rice harvest beginning next February. Shipments under PL-480, however, are at best uncertain and in any event will not be possible until October at the earliest. Sri Lanka may ask China for advance shipments of rice which would be part of a 1974 rice-rubber barter agreement. Colombo had requested 50,000 tons in advance last year, but China supplied only 10,000 tons.

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